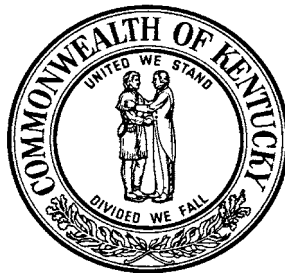


**REPORT OF THE AUDIT OF THE
MERCER COUNTY
CLERK**

**For The Year Ended
December 31, 2001**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MERCER COUNTY CLERK

**For The Year Ended
December 31, 2001**

The Auditor of Public Accounts has completed the Mercer County Clerk's audit for year ended December 31, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees increased by \$966 from the prior calendar year, resulting in excess fees of \$103,312 as of December 31, 2001. Revenues decreased by \$158,114 from the prior year and disbursements decreased by \$162,018.

Leases:

The County Clerk is committed to four lease agreements for copiers for a 60-month period. Outstanding balances as of December 31, 2001 were \$2,010, \$7,261, \$2,912 and \$2,670. The County Clerk is committed to a lease agreement for computer equipment for a 60-month period. The outstanding balance of this lease as of December 31, 2001 was \$26,172.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The Clerk's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES	3
NOTES TO FINANCIAL STATEMENT	6
COMMENT AND RECOMMENDATION	11
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	15



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Charles McGinnis, Mercer County Judge/Executive

Honorable Larry Short, Mercer County Clerk

Members of the Mercer County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Mercer County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Charles McGinnis, Mercer County Judge/Executive
Honorable Larry Short, Mercer County Clerk
Members of the Mercer County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated December 3, 2002, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
December 3, 2002

MERCER COUNTY
LARRY SHORT, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2001

Receipts

Library and Archives Grant		\$	14,245
State Fees For Services			3,964
Fiscal Court			5,904
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	495,206	
Usage Tax		1,411,223	
Tangible Personal Property Tax		1,483,575	
Licenses-			
Marriage		5,520	
Deed Transfer Tax		52,396	
Delinquent Tax		158,553	3,606,473
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	\$	13,968	
Real Estate Mortgages		45,001	
Chattel Mortgages and Financing Statements		58,176	
All Other Recordings		23,942	
Charges for Other Services-			
Miscellaneous		13,308	154,395
Other:			
Overpayment Vehicle Advolarem Tax	\$	25,583	
Election Petition Filings		950	26,533
Interest Earned			5,261
Total Receipts		\$	3,816,775

The accompanying notes are an integral part of this financial statement.

MERCER COUNTY
 LARRY SHORT, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2001
 (Continued)

Disbursements

Library and Archives Grant	\$	14,245
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Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	373,848	
Usage Tax		1,365,426	
Tangible Personal Property Tax		503,329	2,242,603

Licenses, Taxes, and Fees-

Delinquent Tax	\$	24,467	
Legal Process Tax		19,099	43,566

Payments to Fiscal Court:

Tangible Personal Property Tax	\$	89,273	
Delinquent Tax		15,088	
Deed Transfer Tax		49,761	154,122

Payments to Other Districts:

Tangible Personal Property Tax	\$	831,631	
Delinquent Tax		72,732	904,363

Payments to Sheriff		5,744
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Payments to County Attorney		24,510
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Operating Disbursements:

Personnel Services-

Deputies' Salaries	\$	168,699
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Contracted Services-

Computer Lease		14,124
Xerox Lease		5,864

Materials and Supplies-

Office Supplies		12,486
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The accompanying notes are an integral part of this financial statement.

MERCER COUNTY
 LARRY SHORT, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2001
 (Continued)

Disbursements (Continued)

Operating Disbursements (Continued):

Other Charges-		
Prepare Tax Bills	\$	4,848
Dues		1,263
Postage		6,845
Reimbursements		31,989
Restoration/Microfilm Records		4,873
Miscellaneous		972
Uncollected NSF Checks		873
		<u>\$ 252,836</u>
Total Disbursements		<u>\$ 3,641,989</u>
Net Receipts		\$ 174,786
Less: Statutory Maximum	\$	65,685
Less: Training Incentive		<u>2,189</u>
		<u>67,874</u>
Excess Fees		\$ 106,912
Less: Expense Allowance		<u>3,600</u>
Excess Fees Due County for 2001		\$ 103,312
Payments to County Treasurer - January 30, 2002	\$	100,000
November 21, 2002		<u>3,312</u>
		<u>103,312</u>
Balance Due at Completion of Audit		<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent for the first six months and 6.41 percent for the last six months of the calendar year.

MERCER COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2001, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the County Clerk's agent in the County Clerk's name, or provided surety bond which named the County Clerk as beneficiary/obligee on the bond.

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$14,245. Funds totaling \$14,245 were expended during calendar year 2001, leaving a zero balance.

MERCER COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2001
 (Continued)

Note 5. Leases

The Clerk's office is committed to the following lease agreements as of December 31, 2001:

<u>Item Purchased</u>	<u>Monthly Payment</u>	<u>Term Of Agreement</u>	<u>Ending Date</u>	<u>Principal Balance December 31, 2001</u>
Copier	275.00	60 Months	February 2004	7,261
Copier	68.00	60 Months	April 2005	2,670
Copier	68.00	60 Months	June 2005	2,912
Copier	77.00	60 Months	February 2004	2,010
Computer				
Equipment	727.00	60 Months	January 2005	26,172

Note 6. Software License Agreement

The office of the County Clerk is committed to a software license agreement with Software Management, Inc., for the period of January 25, 2000 through January 31, 2005. The agreement requires an annual payment of \$5,400 (\$450 per month). The total balance of the agreement is \$16,200 as of December 31, 2001.

COMMENT AND RECOMMENDATION

MERCER COUNTY
LARRY SHORT, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2001

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

The Clerk's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. The Clerk has statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements. The Clerk currently compiles the daily check out sheet, prepares and makes daily bank deposits, records ledger transactions, completes the monthly bank reconciliation, and prepares the financial statement. We recommend that the Clerk delegate duties such as the daily check out sheet preparation and monthly back reconciliation to deputies within his office. The Clerk should document his oversight of these delegated duties as an endeavor to offset this internal control weakness. This lack of segregation of duties is a reportable condition and a material weakness.

County Clerk's Response:

None.

PRIOR YEAR:

None.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

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Members of the Mercer County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Mercer County Clerk for the year ended December 31, 2001, and have issued our report thereon dated December 3, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Mercer County Clerk's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mercer County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. The reportable condition described above is also considered to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
December 3, 2002

